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# HEARINGS

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BEFORE THE

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE  
OF THE HOUSE OF REPRESENTATIVES

ON

## H. RES. 357

RELATIVE TO FIRE INSURANCE AND FIRE LOSSES  
IN THE UNITED STATES

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MARCH 25, 1912



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COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE.

HOUSE OF REPRESENTATIVES, SIXTY-SECOND CONGRESS.

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# FIRE INSURANCE AND FIRE LOSSES IN THE UNITED STATES.

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,  
HOUSE OF REPRESENTATIVES,  
*Washington, D. C., Monday, March 25, 1912.*

[H. Res. 357, Sixty-second Congress, second session.]

*Resolved*, That the Secretary of Commerce and Labor be directed, acting through the Bureau of Corporations, to make a complete investigation of the business of foreign and domestic fire insurance corporations in the United States, and to gather, compile, publish, and supply full, complete, and useful information concerning the abnormal losses of life and property by fire in the United States, the proportion such losses of property, insured or uninsured, bears to the whole amount of property insured in the United States, the rates charged for fire insurance and the means and classifications employed in fixing the same, the reasonableness thereof, and their effect if any in causing or preventing such losses, and all other facts and information necessary to indicate means of preventing such losses of life and property and restricting fire waste in the United States.

The committee met at 10.30 a. m., Hon. William C. Adamson (chairman) presiding.

## STATEMENT OF HON. FRED S. JACKSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS.

The CHAIRMAN. You will proceed in your own way to make your statement, Mr. Jackson.

Mr. JACKSON. I think I will call the attention of the committee to a letter of the Secretary of the Department of Commerce and Labor of date January 31, 1912, to the chairman of this committee, as a basis of what I want to say. This letter is as follows:

DEPARTMENT OF COMMERCE AND LABOR,  
*Washington, January 31, 1912.*

DEAR SIR: Your letter of the 12th instant, inclosing copy of House Resolution 357, was received. The proposed resolution directs an investigation by the Secretary of this department through the Bureau of Corporations into the business of fire insurance. I have considered this resolution for the purpose of giving you my views, and an estimate of the probable cost, in accordance with your request.

The importance of such an inquiry is fully recognized by the department, and I find that shortly after the organization of the Bureau of Corporations considerable preliminary work was done with a view to ascertaining what could be done under the existing conditions of the law and the bureau's appropriations. It soon became apparent that a satisfactory report could probably not be made without the use of the compulsory process. While the companies and their representatives were willing to cooperate to a certain extent, it was found that they were unwilling to furnish voluntarily all the facts that would be necessary for the completion of the work, and that they denied the authority of the Federal Government to compel the giving of the necessary information.

The department at the time felt that these objections were serious, and doubted whether fire insurance was sufficiently connected with interstate commerce to give the Commissioner of Corporations the power to compel witnesses to testify in the proposed investigation. In view of the situation so disclosed the department at that time thought it unwise to attempt further work, or indeed to begin an investigation which promised to be only partial, and accordingly the work was practically abandoned.



A reconsideration of the question, in view of your inquiry, has led me to the following conclusion: It is, of course, admitted that fire insurance is not interstate commerce. Upon this subject we have an unbroken line of decisions by the Supreme Court of the United States, beginning with *Paul v. Virginia* (8 Wallace, 168), and including *Hooper v. California* (155 U. S., 648, 1894), in which the rule was applied even to marine insurance.

In my opinion, these decisions disposed of the authority in Congress to regulate the fire insurance business. But it does not follow that Congress has no authority to order an inquiry into the condition of the fire insurance business. There are many other purposes for which Congress might desire to have such an investigation made. It may become important even for the regulation of, strictly speaking, interstate commerce organizations to know under what conditions such organizations are compelled to operate. A report upon fire insurance companies might be of value in connection with proposed measures for taxation. Broadly speaking, I am inclined to believe that Congress has the general power to inquire into any conditions for the purpose of giving general information, even though it be admitted that the conditions disclosed by such an investigation are beyond the authority of Congress to regulate or to cure. In other words, Congress may provide the information, leaving it to State authority to supply the correction. If this is not true, then it appears to me that the activities of our Commissioner of Education in the Department of the Interior, and many of the inquiries made by the Bureau of Labor, could not be sustained.

A further question is, whether the Bureau of Corporations has the authority, under existing law, to make such an inquiry upon its own initiative. I am inclined to think that it has. While, generally speaking, the statute which creates this bureau refers specifically to organizations engaged in interstate commerce, the language in other places is sufficiently broad to authorize an inquiry into general conditions which may be of value or interest to those who have to deal with the regulation of interstate commerce, and in one place at least fire insurance companies are especially referred to. I have no question that any doubt which may be entertained in this respect could readily be removed by a resolution directing the bureau to proceed with such an inquiry. In view of the former action of the bureau, and of the objections that will necessarily be raised if it should proceed without specific instructions, it is my belief that the bureau ought not now to proceed unless Congress sees fit to give such direction.

With respect to the cost, it is very difficult to give an estimate. The preliminary work which was done some six or seven years ago and which was then abandoned would be of very little value now. Indeed, the work was not proceeded with far enough to constitute anything like a guide for an estimate of the work which would now have to be done. It would be necessary to secure a considerable number of experts and to train a competent force in this variously specialized line of business. Such experts and such a force could hardly be secured inside of a year and would probably require more time. Nor could such an investigation, in the opinion of the Commissioner of Corporations, be satisfactorily completed in much less than three years. Possibly more time would be required. Much would depend upon the attitude of the insurance companies in determining both the time and the expense. Only a rough estimate of the expense can therefore be submitted, but subject to a large margin of error it is the opinion of the Commissioner of Corporations that probably a sum ranging from \$200,000 to \$300,000 would be required.

Respectfully, yours,

CHARLES NAGEL, *Secretary.*

Hon. W. C. ADAMSON.

*Chairman Committee on Interstate and Foreign Commerce.*

*House of Representatives, Washington, D. C.*

Mr. DRISCOLL. Whose letter is that?

Mr. JACKSON. This is a letter of the Secretary of Commerce and Labor. Now, I take it upon the whole as a very favorable report to the investigation, setting the expenses at \$200,000 to \$300,000, and I understood that the committee would like to hear something from me, or, more properly speaking, from us, the gentlemen and the States who have really proposed this investigation, as to the amount of the expense, and, as an incident thereto, the work that is hoped to be accomplished by it; and in that connection I simply want to say in the beginning that we have never considered this as a matter of trivial or passing importance. We have considered it as going to one of the great national questions of the present hour, a question



of conserving, not some forest in the distant mountains of the West, or the timber upon some watershed, or the lumber that may be used 25 or 30 years from now, however beneficial those measures of conservation may be, but a measure of importance that goes to conserving the very life and homes and industries of the country. The importance of this subject can better be understood, perhaps, when we consider this enormous loss and the relations which it bears in this country to some of the other great countries of the world. Now, it is admitted by the best authorities upon this subject, including the insurance companies of the country, so far as they know anything about it at all, that the fire loss in this country at the present time is, including the expenses of fire prevention, \$500,000,000 a year. I believe that is approximately correct, Mr. Holt?

Mr. ESCH. Does that include the destruction of forests, or merely improvements?

Mr. JACKSON. I mean merely the business interests and the home interests of the country.

Mr. STEVENS. Insurable interests?

Mr. JACKSON. Insurable interests. The loss of life has ranged about 3,000 persons a year, I think, and last year something like 6,000. This might perhaps be taken merely as unpreventable loss, if we did not know that in this country the loss is thirty times what it is in any other civilized country in the world. Our fire loss in this country is thirty times the ratio of what it is in the civilized countries of Europe.

Mr. SIMS. Do you mean the loss to insurance companies, or in fact?

Mr. JACKSON. The fire loss; the fire waste is perhaps the better term.

The CHAIRMAN. The insurance companies themselves do not lose anything, do they, Brother Jackson?

Mr. JACKSON. I think I am prepared to show you before I get through that the insurance companies do not lose anything; and I am not here to attack them.

Mr. DRISCOLL. Are you sure about that being thirty times?

Mr. JACKSON. That is the information I have.

Mr. HAMILTON. You take the fire loss in France last year, then the fire loss in this country would be thirty times the fire losses in France last year?

Mr. JACKSON. Well, yes; the ratio would be thirty times greater here than there, and the fire loss, as I understand it, is thirty times greater here than it is in all Europe annually.

Mr. COVINGTON. What do you figure the ratio on, the population or value?

Mr. JACKSON. No, on the amount of property.

Mr. DRISCOLL. For instance, the insurable interests, the property destroyed by fire in Germany, we will say, is worth \$30,000,000,000.

Mr. JACKSON. And I presume that is away up high.

The CHAIRMAN. If it is one million in Germany, it is \$30,000,000,000 here?

Mr. JACKSON. That is the point, that is my understanding.

Mr. DRISCOLL. That would not be right. It must be 30 times as much in proportion to the value of property that may be destroyed by fire; that is, destructible by fire.

Mr. HAMLIN. You mean on percentage business?



Mr. JACKSON. I have never examined these figures.

Mr. HAMLIN. The value of the property is highly important, but have you any means of knowing whether there are actually more fires?

Mr. JACKSON. Oh, yes; a great many more fires.

Mr. DRISCOLL. Does it mean this—now supposing the value of destructible property or property destroyed by fire in Germany and in this country are the same, we will say, then do you say there is 30 times as much destroyed in this country in a year as in Germany?

Mr. JACKSON. My understanding was, I may be incorrect, basing it upon totals, that the total in this country was 30 times as great as in all Europe. Am I mistaken about that?

Mr. HOLT. I think in this way. In all countries in Europe the total fire waste is \$10,000,000; in this country the average is \$215,000,000, last year \$250,000,000—including Germany and others.

Mr. JACKSON. Does not Babson give it there \$427,000,000 last year?

Mr. HOLT. At the beginning of his article—I read here a sentence from Babson, the most noted statistician on this subject or any other subject in this country. For our country and Canada the estimated loss by fire for that month was \$35,000,000 and to multiply that by 12 would give results quite appalling, over \$427,000,000, and \$234,000,000 for 1911 and 1910.

Mr. ESCH. Is that confined to insurable risks? It does not specify there.

Mr. JACKSON. No; I think not.

Mr. ESCH. There have been terrible forest fires last year.

Mr. JACKSON. It does not include the forest fires; it includes only the insurable risks. Now, I want to direct the committee's attention to the fact that this question embraces one of the strongest police powers of government, generally speaking.

The CHAIRMAN. You started to answer a question I interjected. I wanted to get it into the record before I forgot it, whether the insurance companies themselves lost much or not by these fires.

Mr. JACKSON. I said I would answer that, Mr. Chairman, before I get through, because I have some charts here.

The CHAIRMAN. I wish before you finish you would show whether they are profitable or prosperous.

Mr. JACKSON. Yes, I will do that; and I am coming now to that very point again, and I just made the statement that this question of protecting from fire waste is really one of the police powers of the State governments, but up until a few years ago we left all of the measures that were taken in this country for the protection of fire losses to the insurance companies; and not only that, it is acknowledged by the insurance companies and by every great authority upon this subject that what is paid for insurance by the country at large is simply a tax, and we permit these insurance companies to distribute this tax back upon the industrial and property interests of the country, according to their own methods. Now, why do we abandon the exercise of this governmental privilege to the insurance companies of the country? If our experience for the last 25 or 30 years had shown that was a wise thing to do when we come to compare our fire losses with the fire losses of other civilized countries, then there might be some reason for continuing it.



Mr. HAMILTON. Do not municipalities make ordinances and regulations?

Mr. JACKSON. I will come to that in just a moment, Mr. Hamilton. But we are met with the phenomenal showing that during the last 10 years, while this matter has been practically in the hands of the insurance companies, the fire losses of the country have more than doubled, and that would not be so much a surprise as the fact that the premiums of the insurance companies have doubled at the same time. Indeed, it might be considered, then, that was a necessary corollary of the fact that our losses were doubled. Of course, the insurance companies must make up in some way to meet this loss, as suggested by your chairman, and they have not neglected to do it, including the increment of this great amount of premiums, which they collected, which goes to profit.

Mr. SIMS. You mean the premiums doubled in rate or in volume?

Mr. JACKSON. Doubled in volume; the whole amount. They have increased in rate in some places as well. Now you speak about the regulations taken by the different municipalities. The regulations up until a few years ago, as I understand it, aside from the measures that are taken as fire protection, such as providing for the apparatus and water service and all that sort of thing, which of course entails a great expense, but outside of that the regulation consisted in giving the insurance companies more authority as to making these rates and their power to extract from the people an unnecessary charge and a charge that was levied upon a wrong theory, a theory which discriminated against the rightful protection of the country against this fire waste. Up until a few years ago, of course, the insurance companies all over the country boldly and openly declared their purpose of fixing rates; in some of the larger cities the legislature even conferred power upon so-called underwriters' boards to meet for the purpose of fixing rates.

Mr. HAMLIN. May I ask a question?

Mr. JACKSON. Yes.

Mr. HAMLIN. Do you think Congress has any authority to enact a new law that will tend to prevent fires in different localities throughout the United States, in different municipalities?

Mr. JACKSON. Not directly perhaps, but I am coming directly to that.

Mr. HAMLIN. To illustrate: In all towns, and I presume in your town—in my town, at least—there would be a zone in which under the ordinances of the city nothing but brick buildings might be erected, which certainly is a great preventive of fire. Do not think that Congress could go into any town in the United States and prescribe certain zones in which nothing but brick buildings could be erected.

Mr. JACKSON. No; we do not attempt to go into them.

Mr. HAMLIN. Then what good would this investigation do, at a large expense, if we had not power to enact laws to prevent those fires?

Mr. JACKSON. I am leading right up to that. It is as an assistance to the State, that is what I am coming to. Now, there was a good reason back of this right of the companies to combine; that reason lies in the fact that the business of insurance is, in a way, a sort of natural monopoly. Of course, as you gentlemen all know, in a good



many countries of the world it is exercised by the Government directly, but the companies claimed that they required scientific knowledge, scientific analysis, and classifications; they claimed that one company necessarily did not have the data from which this could be done; and that it had no means of securing the data that other companies had. The data of one city was not sufficient upon which to base the rating of a State, and the data from one State was not sufficient upon which to base the rating for the Nation, and therefore unless these companies could get together and compare results that they could not make a scientific rate; and then they said also that where unlimited competition was allowed that the tendency was to favor the big man at the expense of the little man, and the only way they could prevent this sort of thing was to come to a certain way under Government regulation, or regulations of the legislature, as to fairness, and be permitted to combine.

Well, now, then, about that time in the history of this thing, the States were beginning to pass these anticomcompact laws or, in other words, enforce the same law against combinations of these insurance companies that they enforced against other businesses, and all over the West, at any rate, this combining between the companies was in a certain measure broken up, and the companies then went into a scheme of what they called independent rating bureaus. But those who have studied the subject know, of course, that these rating bureaus are, in a way, under the control of the western union and the eastern union organizations of the insurance companies, and that these organizations are, in turn, controlled largely by the foreign companies and the companies with headquarters in and about Hartford, usually spoken of as the "Hartford companies," which are recognized to have combinations, so this independent rating bureau has come to have about all the objections that the old plan of combination had, without any of its benefits. They combined for the purpose of fixing the basis rate by compelling these independent bureaus to use schedules prepared by them, and yet have not the power to prevent the discrimination in favor of the strong man as against the weak man, so there was but one thing to do, and we come now to the answer to Judge Hamlin's question, and that has been for the States themselves to take charge of this matter of rates, the building of the rate, and enforcing the provisions against discrimination. Some six or eight States have done that. Kansas was one of the first, Missouri was next, and Texas and Louisiana, and just last month Kentucky. Mr. Holt is here, who was down and assisted in the campaign that was made there for the State rating law in Kentucky. Wisconsin has an investigation under way; Illinois has a partial investigation, or has made a partial investigation; New York, as we all know, made something of an investigation into the matter of corrupt practices; so this question is simply starting now in the States for the purpose of the States assuming their rightful power of exercising this police control and getting at a reasonable basis for rates and a reasonable basis for the protection of the property from loss.

Now, there is one thing I ought to have said before and that I want to mention now; and that is that this Bureau of Corporations in its organization was intended to do this very thing, and for that purpose it was given authority over the insurance companies and authority to make this investigation.



Mr. STEVENS. That was stricken out on the floor after a very animated debate.

Mr. JACKSON. It is in the bill yet.

Mr. STEVENS. I know, but there was a distinct insurance division which was stricken out.

Mr. JACKSON. But you will remember that the insurance companies are still in the law.

Mr. STEVENS. There was a division there, as one of the things might be investigated.

Mr. JACKSON. I think I violate no confidence in saying that Mr. Mann said to me that he was greatly disappointed this bureau had not been able to make this investigation, that it did not proceed in the investigation, as was made in New York on that very question, and while that investigation was more or less of a failure as to what it should have accomplished, yet it did electrify the entire country so far as the corrupt practices of the insurance companies were concerned.

Mr. STEVENS. Let me ask you right there: Are there not practically two organizations or different kinds of influences at work along these same lines, first the organization of the State insurance commissioners, have they not been directed of late years to do something of this same kind; secondly, are not the companies themselves organizing, and have they not proceeded along the line of classifying their risks, indicating how the risks should be classified, with a view to making rates more scientific and compelling those who ought to pay for what they get—are they not proceeding along those two lines?

Mr. JACKSON. I think you are in a measure correct. The insurance companies claim to be conducting a campaign about the fire losses. I was down at the Trans-Mississippi Congress at Kansas City, and the Western Union there had a representative of the rating bureau of Kansas and the chairman of some fire-prevention club that these men belonged to, but the fact remains that despite that effort that has been made on the part of the companies, that fire waste has gradually increased until it has doubled, and that the premiums in the meantime have also increased, so we say that is sufficient evidence of the failure of their effort to prevent or reduce this fire loss.

Mr. STEVENS. Have not premiums increased mostly because the gross insurable interest has increased proportionally.

Mr. JACKSON. No; I think not. Their have been distinct efforts to increase the rate. After the San Francisco fire there was a united effort set forth over the entire country to increase the rates, for the avowed purpose of recouping the losses from the San Francisco fire. Now, so far as any efforts being made on the part of the insurance commissioners, I do not think there has been any, except so far as this movement for State regulation has become effective.

Mr. STEVENS. Have they not committees which are studying subjects of this sort?

Mr. JACKSON. The superintendents?

Mr. STEVENS. The State superintendents. They are organized, they have committees that study different subjects.

Mr. JACKSON. I know of no such committees, except where some individual State employed experts. Do you know of any, Mr. Holt?

Mr. HOLT. They have had committees from time to time. The expense committee of the national board under Commissioner Palmer



is to report some time this year, I think, but the thing is all divided up; there is no place they can go to get what you are trying to get through this resolution; nobody has got it, the companies have not got it, the States or anybody else, and they all admit it.

Mr. JACKSON. The trouble is here, you see, that the companies, if they keep all that they ought to keep, would only keep their own experience. Now it seems to us that this ought to be a mere matter of mathematics. Fire insurance, like life insurance, should be based upon the experience of the companies and of the people, and it is manifest the experience of one company could not do it or the experience of one city or of one State, and it is also manifest that the companies have not given credit for the very things they have been advocating through this sort of club of which we speak for fire prevention. I think I have one startling example here that was given me by a gentleman who was at work with Mr. Holt. Of course, we all know—we all know in my own State, where we conducted a trust suit investigation, we found the dwelling-house property of the State had been paying what the insurance companies call the “velvet” of their business for 25 years in Kansas; that they had been standing the loss, paying the profits, because every one knew the dwelling-house risk was a safe risk.

Mr. DRISCOLL. What rate was it?

Mr. JACKSON. I believe—of course it is classified as to city risks, and so on down—but I believe it was 45 cents when the investigation began. It has been decreased now to 25 or 35 cents.

Mr. DRISCOLL. A hundred dollars?

Mr. JACKSON. Yes; that is, on brick dwellings.

Mr. DRISCOLL. Most of the country houses are wood, are they not?

Mr. JACKSON. Yes; most of them are wood.

Mr. HAMILTON. Have they in Kansas the farmers' insurance companies?

Mr. JACKSON. Yes; and I will give you the experience of one of those companies in our State. While the stock companies have been complaining about losing money, absolutely refused at one time to take farm-property risks—I think only one or two of the stock companies doing business in the State that would take farm property—yet one of these mutual companies started in our State and in an experience of, I think less than 10 years, has about 40,000 members, with a business of considerably over \$30,000,000, and that is only one. There are a number of others.

Mr. HAMLIN. How much lower are their rates than the old line companies?

Mr. JACKSON. They write somewhere near the book rate and then distribute back to their policy holders the profit at the end of the year. It is different in different years, and I do not know what the dividend is, but it has been considerable, because the company is very prosperous.

Mr. HAMILTON. These mutual companies are scattered all over the country, are they not?

Mr. JACKSON. Yes. So far as the effect on rates is concerned the effect has been enormous from their operation, but of course they fail to get at the proposition that we seek to accomplish here. We are not advocating this alone for the purpose of what it will save to the people in the way of this insurance tax, but I am interested in it



personally, and I brought it here before Congress and this committee more for the purpose of securing to the man who is willing to build and improve his property in such a way as to prevent fire the credit that he is entitled to rather than for the purpose of securing the lower rates of insurance, although the saving in our State by the enactment of this law the first year was more than \$500,000—five times what the probable cost of this investigation will be to the entire nation.

Mr. ESCH. You authorize the Secretary of Commerce and Labor, through the Bureau of Corporations, to investigate the rates chargeable for fire insurance and the means and classifications employed in fixing the same, the reasonableness thereof. Is it your idea that the Secretary of Commerce and Labor should go into the subject of reasonableness of rates or to merely file his findings and let whatever body has to deal with those facts determine the reasonableness of the rates?

Mr. JACKSON. That probably would result, although if the Secretary, as I understand this problem, should find that experience showed that the fire loss was such and such on certain classes of property, that the reasonableness of the rate would naturally follow. Of course, I suppose it would be left to be applied by the different States or different boards or companies which used this information.

Mr. HOLT. May I suggest a little answer to that?

Mr. JACKSON. Certainly.

Mr. HOLT. The point I have in mind—perhaps I may not have it just right, but it seems to me you want these statistics in order they may be utilized to show the reasonableness.

Mr. ESCH. Yes; I thought that was your proposition; but this is to determine the reasonableness.

Mr. HOLT. He is to get these things for the purpose of determining, so they can be determined. It is the absence of facts that makes it impossible to determine the reasonableness of rates, and it is with a view to getting at the facts that will bring that out. We can get at facts, but not enough facts.

Mr. JACKSON. I want to read here a letter illustrating the fact that the companies have not in the past given credit for improvement of property to prevent fire loss.

Mr. HAMLIN. Let me make a suggestion before you do that. It is a question in my mind now if you get these facts, such as are called for in your resolution, could Congress effect any legislation based on those facts?

Mr. JACKSON. Well, perhaps outside of the District of Columbia and the Territories of the United States, and the immediate effect upon interstate commerce, it would not be called upon to do so; but, as said there by the Secretary in the letter, the information would be of immense importance not only to Congress, but to the States that were legislating upon this subject.

Mr. HAMLIN. That is the point I had in mind; and has Congress authority to expend money to gather up this information for any purpose other than for the purpose of basing legislation upon it? If that be true, then we certainly have not the authority to authorize this expenditure, if we have not authority to follow it up with legislation.



Mr. JACKSON. I briefed that subject quite thoroughly, and I wrote the Secretary a letter upon it, and I beg to read again what he said upon that question, if you would like to hear it.

Mr. HAMLIN. I think I remember what he said about the right to gather the information.

Mr. JACKSON. "There are many other purposes for which Congress might desire to have such an investigation made. It may become important even for the regulation of, strictly speaking, interstate-commerce organizations to know under what conditions such organizations are compelled to operate." It is a matter that even now is becoming as important as the regulation of railroads, and certainly in marine insurance it would be of the greatest importance. But, aside from that, as far as the technical power of Congress is concerned, if we are convinced it is greatly to the advantage of the State, the technical power as furnished by the Government here, both in the exercise of its police power and as a property holder in the District of Columbia—because the rights of the District of Columbia are just the same as those of a State——

Mr. SIMS (interposing). Do you know what the rates in the District of Columbia are on dwellings?

Mr. JACKSON. No; I never investigated that subject.

Mr. SIMS. It is 10 cents a hundred, or \$1 a thousand on dwellings in the District.

Mr. DRISCOLL. On wood or brick and wood both?

Mr. SIMS. I would answer brick, but not from any investigation I made; but I have been told in making applications for insurance that it is 10 cents a hundred and \$1 a thousand, or less for terms of years. I do not think there is any doubt about it.

Mr. JACKSON. If that is true, Mr. Chairman, that would show the greatest necessity for this investigation, because I have the charts here showing that the rate in——

Mr. SIMS. It is the lowest fire insurance rate here of any place I know in the United States.

Mr. DRISCOLL. I think it is 20 cents a hundred in Syracuse, on wooden buildings.

Mr. JACKSON. Here is a chart from which I will give you some examples. In Louisville the rates put on brick dwellings, shingled roof, St. Louis, 15 cents; Louisville, Ky., 50 cents; overcharge 35 cents; Missouri maximum rate 25 cents and the Kentucky maximum rate 65 per cent. Now, if it is true that the rate here in the District of Columbia is 10 cents, it only shows what the companies are doing and the effect it would have on this general subject of encouraging people to put their property in condition so as to prevent fires.

The CHAIRMAN. That looks like discrimination against different States.

Mr. JACKSON. It does often.

The CHAIRMAN. That is the sole purpose of the commerce clause of the Constitution—to prevent discrimination against States.

Mr. HAMLIN. Are not those local rates governed entirely by the facilities to handle fires?

The CHAIRMAN. I was trying to argue within the Constitution.

Mr. HAMLIN. Is that not true?

Mr. JACKSON. No; I do not think they are. There is a pretense of that sort, but that is a matter subject of course to absolute demon-



stration as to what that loss is, and it will not be contended for a moment, I apprehend, that there is that much difference between Louisville and St. Louis.

Mr. HAMLIN. I am not justifying these rates.

Mr. JACKSON. You are assigning the reason for them.

Mr. HAMLIN. Yes; and I say may it not be accounted for in that way, because you take a town that has splendid facilities for fighting fires and the rate is naturally lower than on some little town out here where they have no waterworks, no chance to go and fight it except with buckets and things of that kind; the insurance companies naturally increase their rates on those towns.

Mr. HOLT. In cities like Chicago the rates are higher in protected portions than others.

Mr. HAMILTON. On what basis do they fix these rates which differ so widely?

Mr. JACKSON. As I understand the matter in the West—I am not informed in the East—the western union has given a sort of an approval, in effect, to the so-called Dean rating schedule.

Mr. HAMILTON. That is a blanket rate, covering a large area.

Mr. JACKSON. Not exactly a blanket rate, a system devised by a man named Dean, of the Springfield Fire and Marine Insurance Co.

Mr. HAMILTON. What area does that cover?

Mr. HOLT. Nineteen States.

Mr. JACKSON. It covers our State. The best description I can give of Mr. Dean's system is, as I recall it, a table of logarithms; just take a table and get the basis rate. In our State it is fixed at 60 per cent, or 60 cents per hundred. There is not any reason that any one can tell, except that rate somewhere nearly corresponds with the old combination rate called the western tariff, as they fixed that there. He adds so much for every risk, exposure, and takes off so much for every improvement—pretends to, and so that goes all over the State, and you just take that table and figure up the rate. Now, the same thing applies over all these 19 States. I do not know what it is in the East.

Mr. HAMILTON. It is all based on the idea of giving each insurance company what they regard as a profitable return.

Mr. JACKSON. Something of that sort. It was fixed on a basis, at any rate, at getting the premiums at a certain figure right up here, so many millions.

Mr. HAMILTON. Not fixed then with reference to the risk, to the individual risk in any instance?

Mr. JACKSON. I think not.

Mr. DRISCOLL. Are the rates higher in San Francisco since the fire?

Mr. HOLT. No, sir; they are lower. I beg your pardon, I shall have to explain that. The rate was relatively high in San Francisco, and the business was very profitable, so rates were cut all to pieces. The tariff did not govern at all; there was a war—and now the rate is very much lower than it was.

Mr. KNOWLAND. The risks are less, however, since the fireproof and earthquake structures have been built.

Mr. HOLT. They ought to be.

Mr. KNOWLAND. There is now scarcely a building that is not fireproof, while before that we had many wooden structures.



Mr. STEVENS. Mr. Chairman, you may recall that some years ago there was argued before this committee a proposition something like this.

The CHAIRMAN. Twice since I have been on the committee.

Mr. STEVENS. That the decisions of the United States Supreme Court on those insurance cases were based on the theory that Congress had not acted. That is, it was contended then they were based on the theory that Congress had not acted, and because that Congress had not acted that insurance was not a part of interstate commerce, but that if Congress should act and declare in any way that insurance, especially marine insurance, were a necessary incident of interstate commerce, that then there would be standing in court so that insurance might be regarded as a necessary incident of interstate commerce, and the matter might be considered as within the jurisdiction of Congress doing anything about that.

Mr. JACKSON. It seems to me something of that kind must have been in the minds of Congress when the law was fixed up, but, as you say, the direct provisions were stricken out of the law and left simply with the power of a bureau to collect information.

Mr. STEVENS. Have you given any thought to know if Congress acted affirmatively, making, say in marine insurance an incident the same as we legislated what is known as the Carmack clause relative to agreements of carriers—fixing a liability as to marine insurance in interstate commerce, whether that would give the commerce commission any additional jurisdiction over what it has now?

Mr. JACKSON. As you put it, I will say the subject is new to me. I have had the impression that Congress could take out of interstate commerce what was legitimately interstate commerce; but I did not have the idea that Congress could add to.

Mr. ESCH. Have you read the report of the Judiciary Committee that was made on that portion of President Roosevelt's message, sent to Congress at the time of the pendency of the investigation of the big insurance companies in New York, a report which declared that Congress did not have jurisdiction over the subject matter of insurance; that it could not be brought under the interstate-commerce clause of the Constitution?

Mr. JACKSON. That was the New York report?

Mr. ESCH. No; the report of Committee on Judiciary of the House of Representatives.

Mr. SIMS. Did not that pertain to the matter of life insurance?

Mr. ESCH. Yes; but to a case upon this question of insurance as related to interstate commerce.

Mr. JACKSON. There is great reason for believing that fire insurance has closer relation to interstate commerce than life insurance and marine insurance—much closer.

Mr. HAMILTON. I gather from what you have said that the large insurance companies have apportioned the different portions of the country and fixed rates which they adjust pretty largely themselves?

Mr. JACKSON. There is no question about that, and they do not deny it; and, in my opinion, it was justified before the States commenced to legislate on this subject.

Mr. HAMILTON. And the consumer pays the tax?

Mr. JACKSON. Yes; the only way in which rates can be levied and this tax for fire waste can be distributed back to industry and the



people is by some system of cooperation. Now, then, if it is true, it is manifest that the State ought to interfere and see that that is legitimately and properly done.

Mr. HAMILTON. What is the power of the individual State in that connection; have they not the power to regulate rates themselves?

Mr. JACKSON. I think so, yes.

Mr. HAMILTON. Well, have they been utterly inefficient in this respect?

Mr. JACKSON. No, they have only begun it. I think these six States I have mentioned are the first in the field.

Mr. HAMILTON. Suppose that should spread.

Mr. JACKSON. We want it to spread; those who believe as I do, and the people who are behind this resolution want it to spread, and the companies themselves in this——

Mr. STEVENS (interposing). You want it to spread on the right kind of basis?

Mr. JACKSON. That is the point. We want it to spread with the proper information that can be furnished, as we claim, more cheaply and efficiently by the National Government.

Mr. STEVENS. You do not want rates so low that people will only get wild-cat insurance.

Mr. JACKSON. That is what we want to prevent.

Mr. STEVENS. And not so high the people will be robbed?

Mr. JACKSON. That is it exactly. You have stated it better than I can state it.

Mr. SIMS. Do common carriers insure their freight they carry themselves?

Mr. JACKSON. They do in the warehouses, as I understand it.

Mr. SIMS. But not in transit?

Mr. JACKSON. I am not informed as to whether the insurance applies in transit, but, of course, they have enormous losses in warehouses.

Mr. SIMS. You remember most railroad companies restrict the amount of recovery on furniture to so many dollars per hundred pounds; you must release all above that. Now, I have been told there are insurance companies through whom the shipper may insure against such loss.

Mr. JACKSON. I have been told that.

Mr. SIMS. But I do not know whether confined to fire insurance or just the breakage.

Mr. JACKSON. I have been told. I want to read this one illustration for the credit given to appliances upon the property.

Packing houses afford an apt illustration of the control of the situation wielded by the insurance rate. Public attention was recently attracted by a large loss in the Chicago stockyards which was accompanied by the death of many firemen. This loss involves a paradox which few observed. Why should appliances, which would have prevented this loss and catastrophe, be absent in the congested Chicago yards and yet present in similar outlying plants owned by the same men? No spot on earth needs precaution against fire more than the Chicago stockyards, and in none is there a more profitable opening for investment in the means of safety.

Now, these appliances were found at St. Joseph and Kansas City and other places, but right in the heart of the congested district of



Chicago this fire broke out, and it was found they did not have this protection. Now the only reason for it was that the insurance companies had found it more profitable to take this risk themselves than it was to compel the owners of this work to furnish the right kind of appliances before they would insure.

Mr. DRISCOLL. I presume the option was with the owners. If the insurance were, say, \$1 per hundred without this apparatus in the building to put the fire out, and the insurance company would give an option of 50 cents per hundred if they put the apparatus in, and they did not put it in, it was up to the owners of that property to reduce the rate by putting in the appliance, and they neglected it.

Mr. JACKSON. That is true, probably, but if there had been a greater discrimination in the rates, or if the company had refused entirely to take the risk, or if the State had stepped in and said you must do this, or the city, then, of course, it would have been done, and that is the thing we are asking to be done here.

Mr. HAMLIN. That gets right back to my question. Take the illustration you give, and is not the city of Chicago or the State of Illinois the only sovereign power that could enforce such regulations?

Mr. JACKSON. Absolutely.

Mr. HAMLIN. We could not do anything.

Mr. JACKSON. You could not enforce any regulation.

Mr. HAMLIN. Then the only benefit that can come from this would be to furnish Illinois, Missouri, and Kansas, and every other State, the information?

Mr. JACKSON. Exactly.

Mr. HAMLIN. And if they wanted to act on it they could or not as they pleased?

Mr. JACKSON. At a much cheaper rate than they could do it, and information they could not get at all.

Mr. DRISCOLL. Would we not have to go to the insurance departments of those States to get that information?

Mr. JACKSON. No; I do not think so.

Mr. DRISCOLL. Would we not be relying almost entirely on their funds of information and simply tabulate it here?

Mr. JACKSON. I would not say we would rely on it, but we would be greatly assisted by it, but I think Congress has the power—certainly has as much power in the District of Columbia as any State has.

Mr. STEVENS. Right there I wish you would furnish the committee, and I think you could do it within a day or so, a short brief of this proposition following the analogy of what is known as the Carmack amendment, by which we fix a liability on the initial carrier. How far could we in interstate commerce, especially as to marine insurance and possibly as to fire insurance, fix some liability on some commerce entering between the States in the way of insurance?

Mr. JACKSON. I would be very glad to do that.

Mr. STEVENS. If you will examine the cases of those insurance companies and those cases under the Carmack amendment, and give us your opinion about it?

Mr. JACKSON. I shall be very glad to do it, and am very much obliged for the suggestion.

Mr. SIMS. Do you think Congress has any right or power to acquire information that would be necessary for it to legislate, provided it had jurisdiction, to legislate simply that other legislative bodies,



those of the States and cities, may have the benefit of this information on which we can not act?

Mr. JACKSON. I do not know that I want to say that, but it is not necessary to go that far, because Congress has power to legislate—it has at least as much power as the States to legislate concerning the District of Columbia and the Territories.

Mr. SIMS. I am not asking it in an antagonistic sense.

Mr. JACKSON. No.

Mr. SIMS. It undoubtedly has as to the District of Columbia or any Territory that we legislate for, but we are not legislating for Pennsylvania or New York, and can we expend the public money to acquire information to enable those States to legislate for themselves?

Mr. JACKSON. I would not want to be committed either way on that, because I see the Secretary takes rather strong grounds that we could and mentions the Bureau of Education and other things that we do merely for the object of gaining this information; but, as I say, we do not have to do that here. We have a number of things that Congress may be called upon to legislate where this information will be of the greatest advantage.

Mr. HAMLIN. Let me ask you one more question there. Do you believe we would have authority to legislate as to rates in the different States?

Mr. JACKSON. No; I would say not, at least I have not based this upon that idea. It seems to me so far as the law is concerned that as it rests now, as we all understand it, that it is in a very satisfactory condition. The States have the power to regulate this rate; the companies themselves find themselves in a place where they must have some relief; the independent rating bureau is a failure, because it has all the bad features of the combination and none of the good ones, and they want the relief; they do not resist this State regulation, because they know that through the State board of insurance commissioners they will have equity done and a fair hearing. Now, then, what they want is the information; the people want the information; the State officials want it, and the companies want it; but, as I said before, one company can not get the information alone and two companies can not get it, but we must have some strong single authority that can get it from all over the country, and I have no doubt the companies will furnish it.

Now, as to their profits I have here some charts prepared by Mr. Holt, which he calls graphic charts.

Mr. SIMS. Has the Census Bureau heretofore undertaken to furnish information of this kind?

Mr. JACKSON. No; it never has. The Geological Survey undertook to do something of this sort, but did not get very far with it. This chart shows all the companies reported in Connecticut. The capital of those companies was \$68,200,000; the book value was \$191,600,000; the market value was \$214,400,000, and the profit shown was \$144,200,000.

Mr. HOLT. That is the profit accrued on that capital?

Mr. JACKSON. Yes; the accrued capital. That is more than twice the capital. You will see at the top here, that represents the capital, and here is the mark that represents the accrued profit. This is the capital and this is the accrued profit.



Mr. HAMLIN. If we have no authority to change or control the rates, we would be helpless to remedy this.

Mr. JACKSON. You are helpless as to that. I am merely mentioning these to show you there must be a little something unscientific.

Mr. HAMLIN. I am satisfied there is something wrong, but I doubt our authority.

Mr. JACKSON. Here is the contributed capital reporting to Connecticut for the year 1911 of all the United States stock fire insurance companies—contributed capital, \$56,000,000; stock dividends, \$12,200,000; accumulated surplus, \$127,500,000; cash dividends paid, \$269,600,000, represented by this long mark, as compared to the contributed capital and the stock dividends.

Here is another table that is more striking to me, and I will not refer to all of them. It is claimed sometimes by the companies that their profits result largely from their banking departments instead of the premium gained, and here is a table Mr. Holt has prepared on this same report from Connecticut. Gain and loss, banking department. There are two tables. Investment income earned, 53 companies Connecticut, 61 companies New York, 62 companies Massachusetts. Invested gain in surplus, 35 companies Connecticut, 42 companies New York, 40 companies Massachusetts. Earned in Connecticut, \$53,000,000; carried to surplus, \$35,000,000; shrinkage, \$18,000,000. There is the shrinkage in what was carried to surplus and what was earned, represented by this lower mark. Now, then, Mr. Holt observes: In other words, the loss on sales, or upon shrinkage of value, in investments approximates \$20,000,000, which is now shown as taken out of investment earnings. This for two years' experience. What item was it taken out of during all the years in which the companies were not required to report the investment department gains and losses? Where did the investment department expenses appear in those older reports, which are now utilized to show that in a long term of years there has been no profit in underwriting?

One hundred and thirteen companies (94 United States, 37 foreign) write 75 to 80 per cent of all the business in this country.

Just one thing more I have not called your attention to, and then I am through. I have prepared here a little tabulation of people who have expressed their interest in this investigation, and this has not been any organized effort outside of perhaps the companies that are represented by Mr. Holt, who represents a large policy holders' union in the mutual companies. There has been no organized effort. That is correct, is it not, Mr. Holt?

Mr. HOLT. It covers business of all kinds throughout the country. I understood you to say mutual alone. It covers everything.

Mr. JACKSON. Here are some of the personal indorsements:

Franklin MacVeagh, Secretary of the Treasury, Chicago and Washington.

Charles Nagel, St. Louis and Washington.

W. L. Fisher, Secretary of the Interior, Chicago and Washington.

State department of Kentucky: Insurance commissioner indorsed by legislature.

Missouri: Superintendent Blake and Gov. Hadley.

Kansas: Gov. Stubbs and Superintendent Lewis.

Wisconsin: Superintendent of insurance, investigating committee of the legislature, and Senator Robert M. La Follette.

New York: Marvyn Scudder and Albert W. Whitney, experts, New York investigation.



National Conservation Congress, Kansas City, 1911.  
 National Wholesale Dealers' Association. Conventions at Seattle, 1911, and Louisville, March 5-7, 1912.  
 National Policy Holders' Union, Chicago, Ill., Association Mutual Fire Companies.  
 Louisville Board of Trade, Louisville, Ky.  
 Retail Grocers' Association, Louisville, Ky.  
 Retail Lumber Dealers' Insurance Association of Wisconsin, Milwaukee, Wis.  
 Chamber of Commerce, Pittsburgh, Pa.  
 Board of Trade, Indianapolis, Ind.  
 United Typothetæ of America, Chicago, Ill.  
 Builders Managers' Association, Chicago, Ill.  
 Builders Managers' Association, Cleveland, Ohio.  
 International Society of State and Municipal Building Councils and Inspectors, Washington, D. C.  
 Builders Managers' Association, Seattle, Wash.  
 Ben Franklin Club, Chicago, Ill.  
 Ben Franklin Club, Sioux Falls, S. Dak.  
 E. V. Babcock, wholesale lumber, Pittsburgh, Pa.  
*Newspapers.*—The Chicago Evening Post, Chicago, Ill.; Chicago Examiner, Chicago, Ill.; Courier-Journal, Louisville, Ky.; View of Washington, Washington, D. C.; Western Underwriter, Cincinnati and Chicago; Louisville Herald, Louisville, Ky.; Indianapolis News, Indianapolis, Ind.; St. Louis Post-Dispatch, St. Louis, Mo.

[Texts of telegrams in favor of House resolution 357.]

Secretary NAGLE

(Care of Bureau of Commerce and Labor),  
 Washington, D. C.:

We believe that the Government should interest itself in the unnecessary loss of life and property by fire and in the consequent enormous and unnecessary burden of insurance placed upon the people. We are heartily in favor of the national investigation as proposed in House resolution 357 and hope to see same adopted by Congress.

MORRIS, MANN & REILLY.

CHICAGO VARNISH CO.,  
 Chicago, January 17, 1912.

Secretary NAGLE,

Department of Commerce and Labor, Washington, D. C.:

We support House resolution No. 357 for investigation of fire loss and cost.

CHICAGO VARNISH CO.

JANUARY 17, 1912.

SECRETARY OF COMMERCE AND LABOR,

Washington, D. C.:

We are fully in sympathy with House resolution No. 357 and wish to urge the necessity of national investigation of fire losses.

THE JOSEPH N. EISENDRATH CO.

JANUARY 18, 1912.

Secretary NAGLE,

Department of Commerce and Labor, Washington, D. C.:

We heartily favor House resolution No. 357 and urge its passage.

HOTEL BISMARCK CO.,  
 KARL EITEL, Secretary.

At the request of William Mathiesen, assistant attorney.

CHICAGO, ILL., January 17, 1912.

Secretary NAGLE,

Department of Commerce and Labor, Washington, D. C.:

Being heartily in favor of House resolution No. 357, we ask you to give same every assistance within your power.

MONARCH ELECTRIC & WIRE CO.



JANUARY 18, 1912.

Secretary NAGEL,  
*Department of Commerce and Labor, Washington, D. C.:*

We greatly favor House resolution No. 357 and urge its adoption.

AMERICAN WIRE FABRICS Co.

F. A. PATRICK & Co.,  
*Duluth, Minn., January 18, 1912.*

POLICY HOLDERS' UNION,  
*Chicago, Ill.:*

GENTLEMEN: Your bulletin No. 357 is received and in accordance therewith we are writing our Congressmen and Senators, and also Congressman Jackson.

We sincerely hope that the bill may become effective.

Yours, very truly,

F. A. PATRICK & Co.,  
By F. A. PATRICK.

JANUARY 17, 1912.

Honorable SECRETARY OF COMMERCE AND LABOR,  
*Washington, D. C.*

DEAR SIR: We will be glad to have you support House resolution No. 357, with reference to the national investigation of fire losses.

Yours, truly,

THE RICE & HUTCHINS CHICAGO Co.

THE SPECIALTY CASE Co.,  
*Kendallville, Ind., January 18, 1912.*

The POLICY HOLDERS' UNION,  
*Chicago, Ill.*

GENTLEMEN: Your report of the 16th in re resolution of Congressman Jackson. We will write our Congressman from this district and ask him to not only favor, but work for the passage of this resolution.

Thanking you, we are,

Very truly, yours,

THE SPECIALTY CASE Co.,  
By W. F. SHAFFER, *President.*

NATIONAL WHOLESALE LUMBER DEALERS' ASSOCIATION,  
*New York City, January 18, 1912.*

Mr. GEORGE H. HOLT,  
*Manhattan Building, Chicago, Ill.*

DEAR MR. HOLT: We have had a dozen or more telegrams sent to Secretary Nagel in reference to the bill, and we hope that it may be of some influence in the matter.

E. F. PERRY, *Secretary.*

JANUARY 18, 1912.

Secretary NAGEL,  
*Department of Commerce and Labor, Washington, D. C.:*

We support House resolution No. 357 and urge its adoption.

VICTOR ELECTRIC Co.

JANUARY 18, 1912.

Secretary NAGEL,  
*Department of Commerce and Labor, Washington, D. C.:*

In favor of House resolution No. 357. Strongly urge its passage.

CHICAGO CASKET Co.

I have many more that I did not bring over. I will file those with you and I want to file this article as part of my statement.

Mr. ESCH. As you have discussed those charts, why not incorporate those in your hearing? They can be reproduced.



Mr. JACKSON. Yes, I will leave those also.

Mr. SIMS. You might put all those in.

Mr. DOREMUS. Does your bill carry any appropriation bill?

Mr. JACKSON. No, it does not. The general law organizing this bureau provided, as you will remember, that investigation could be ordered by the President or by either House of Congress, and this resolution simply directs, attempts to direct, the Secretary of Commerce and Labor to proceed with this investigation. Of course, the appropriation needed may be two or three hundred thousand dollars.

Mr. STEVENS. About \$100,000 a year for the time necessary?

Mr. JACKSON. Yes; I think \$50,000 would be enough for the first year and \$25,000 to \$30,000 after that. Now this is to be remembered. We are not trying to conduct an investigation here to put anybody in jail or to bring any lawsuit or anything of that sort, or any temporary investigation, such as we sometimes have in Congress. This is simply to carry out the real functions of this Corporation Bureau, as it was originally intended by Congress. We want to establish something here that will be definite and permanent and will result in lowering the fire tax or insurance tax on the people of the country many millions of dollars each year more than this entire investigation will ever cost or can cost the country, so it is something the people are demanding, as you see here, and something that will result in a vast saving of life and property in the country.

#### WHY AN INVESTIGATION OF THE LOSS OF LIFE AND PROPERTY BY FIRE IN THE UNITED STATES?

##### THE EXTENT OF THE LOSS.

All are agreed that the loss is enormous, and by comparison with that of other countries both excessive and abnormal. It is not an inevitable by-product of modern business ways, but is a removable evil with which this country alone is afflicted. It grows as industry expands and unnoted by the people except when death by the hundred in theater or factory shocks or loss by the hundred million in conflagration startles. Lives are now lost annually by the thousand and the property loss averages two hundred and twenty-five millions without the conflagration. If to this be added the expenditure for prevention and restriction, the yearly absorption of productive energy by this waste totals about four hundred million dollars.

These enormous losses arise from the ravages of fire among a vast extent of property which is always in condition to burn readily in spite of highly developed fire departments. The accumulation of so much that is inflammable is not strange, taking into account the economic conditions which prevailed during the first upbuilding of the Nation. It is the persistence of a high level of destruction in the face of much effort toward suppression, and after economic conditions have altered in favor of safety, that calls for serious thought. It is known that the greater part of the waste is removable and great sums are being spent to that end. Yet the last decade, during which property at risk doubled in value, witnessed a disappointing doubling of the waste. Evidently the preventive effort is neither wisely planned nor handled. Investigation is in order that we may know what different things must be done and what must be done differently that is now done indifferently.



## THE PART PLAYED BY THE INSURANCE SYSTEM.

By common consent the control of fire has been left entirely to the care of the fire insurance company. The average man considers that the fire insurance company pays the loss and suffers loss in the payment. In his opinion the company is impelled by fear of loss to exact a high state of efficiency from all engaged in stopping loss, and that it is also in position to know what ought to be done at any time to prevent loss or strengthen the forces that fight fire. From the point of view of the average man, to pay the insurance premium is to discharge his whole duty as a citizen. All else is a detail of the business of fire insurance and not of his business.

The prevalence of this conception of the interest of the fire insurance company explains the apathy of the public and prominence of the company in all questions of public safety against fire. Nevertheless it is a misconception, and until the public bestirs itself in its own behalf fire waste will never be subdued. While the fire insurance company pays the loss, payment is made out of a fund taken from the public in advance. This premium fund covers not only the loss, but about as much more in addition for the use and profit of the company. Up to the limit of price that the public will stand for, the higher the losses, the more the premiums and profits to be collected by the company. Thus the doubling of the loss in the face of a 10-year campaign for reduction led by underwriters is not the reflection on the leadership that it seems. If losses doubled, so also did premiums and profits.

## PART PLAYED BY THE INSURANCE RATE.

The actual control of the situation lies with the insurance rate. However the companies may exhort little will be doing unless their admonitions find concrete embodiment in the rate. It was the rate that doubled premiums during the past 10 years and it was the rate which maintained the conditions of risk implicated in doubling the losses. It is axiomatic that premiums can not be doubled unless losses double and that losses will not double unless there is hazard to produce them. A true rate could have been promulgated 10 years ago, which would have sent such hazard to the discard as no longer profitable and much of the subsequent loss would not have transpired. But premiums would have suffered a like deprivation. There's a Siamese twinning between premiums and losses that forbids a knockout.

Packing houses afford an apt illustration of the control of the situation wielded by the insurance rate. Public attention was recently attracted by a large loss in the Chicago stockyards which was accompanied by the death of many firemen. This loss involves a paradox which few observed. Why should appliances which would have prevented this loss and catastrophe be absent in the congested Chicago yards and yet present in similar outlying plants owned by the same men? No spot on earth needs precaution against fire more than the Chicago Stock Yards and in none is there a more profitable opening for investment in the means of safety. The answer lies in the fact that safety is not sought for its own sake by the average business man. From the small dealer to the board of trustees of a great university no more is appropriated for safety against fire than will pan out profit from the insurance rate. The insurance rate makes safety pay in the out-



lying packing house and makes hazard pay in the Chicago Stock Yards, and the packers are governed accordingly. Inquiry would probably develop that competitive conditions made a reasonable rate possible in the locations where the plants have been made safe, whereas in the Chicago yards competition does not operate and the rate is made by a board having only commissions at stake.

#### WHAT STATE REGULATION OF RATES HAS DISCLOSED.

How is this rate, so loaded with import to life and property, made? This question assumed prominence when regulation of insurance rates was undertaken by certain States. Inquiries conducted by these States show that rate making is neither what it purports to be nor what the public imagines. What it purports to be is indicated by the title given to schedules promulgated by associated insurance companies for the formation of rates throughout the West, Analytical System for the Measurement of Relative Fire Hazard. A system of measurement. Something scientific, accurate, and just is indicated by this title. The public accepts the schedule at the valuation fixed by the title, and believes that back of its provisions is a great fund of digested information bearing upon every angle of the problem; information collected by the companies with infinite patience, and given freely that the making of rates might be done with exact justice to all, charging to none the burden that rightfully should be borne by another. What rate making really is may be inferred from the inquiry of the State of Missouri as to the reasonableness of the important schedule filed under the rating law of that State for the formation of rates for fireproof buildings and contents. Some knowledge of premiums and losses in this class of property is clearly essential for the making of reasonable rates.

The companies were first asked by the insurance department of Missouri to furnish the experience in fireproof buildings and contents. Companies like the *Ætna*, *Hartford*, *Home*, and *Royal* replied that they had never kept a tabulation of this nature and were unable to furnish any information which would show what premiums and losses might be expected from such property. It was explained by these companies that it was their custom in keeping track of bakeries, for example, to class together those of ordinary construction, improved construction, and fireproof construction. No useful information could be gleaned from such a source, and the experts who prepared the schedules were called to the witness stand and asked to justify their handiwork. It appeared, on examination, that the provisions of this schedule were prepared without one iota of information showing what premiums and losses had been experienced in this class of property. It was not known if the rates formerly used had proven unduly profitable or unprofitable. Nor was it known with certainty if the new rates would increase or diminish the premium charge as a whole. All classes of property receive this arbitrary treatment. In none are statistics kept to show whether the schedule is producing too much or too little revenue in comparison with the losses. It is admitted that many classes pay too much, while others are being carried at a loss, but no schedule is made to rectify this abuse, although the schedule purports to be a system of measurement. The



companies do not keep faith with the public. The public is promised that greater care to avoid fire will reduce the loss and lead to lower insurance rates. The rating system is conducted so that the public will neither know its just due nor receive it, except through resort to other forms of insurance. When some organized industry undertakes self-insurance, rate makers are forced to admit that conditions have improved and that reductions are in order. The end of this system of false measurement is near. Four States are regulating rates under laws which call for rates in reasonable relation to losses, and the sustaining of the constitutionality of such regulation by the lower courts makes similar legislation certain in practically all States. There is urgent need, therefore, for accurate knowledge on all matters which affect the rate of burning in the several classes of property. This knowledge does not exist. It must be acquired and by study of data yet to be gathered. The data in the hands of the companies is worthless. It has been gathered by plain business men engaged in the insurance business, and whatever the purpose of the compilation, it certainly has had no reference to the formation of reasonable rates.

#### NEED FOR THE FEDERAL INVESTIGATION AND BUREAU.

Faulty treatment and not incurability is indicated by the persistence of the high level of destruction in this country. The treatment is vague and characterized by irresponsibility. Diagnosis is wholly lacking, the location of the trouble is not known, and remedies are applied haphazard in ignorance of the possible effect. No person connected with the treatment has a definite result to produce or is even asked to give account that any result has been produced. The premiums and losses are reported in bulk to each State. The summation of these reports into one huge total constitutes all that is done by the insurance company or the insurance rater or the public to discover the workings of this great waste. Such blind methods can accomplish nothing. Risks must be enumerated. Those in need of treatment must be singled out and something economically appropriate be prescribed for each. To find out where and how effort can be put forth to economic advantage—to define what can be done wisely by the class and individual to reach the low economic level of loss—to keep watch of results and register the efficiencies of fire alarms, fire patrols, fire departments, and fire resistants—these are details which must be wrought out before fire waste can be attacked with definite aim and for the perfecting of which the Federal investigation and bureau is proposed. The States appeal to the Federal Government to standardize the schedule for the formation of rates so that it shall become a true measure of the conditions to which it is applied. The leaving of this measurement to the dictates of the “best underwriting judgment” has proved a costly error to the people. The underwriter escapes the common lot; the cost of his “error” with a substantial addition for his profit, which is borne by the people.

When the fog that envelops this waste shall become dispersed by the Federal analysis, the way to its speedy removal will become clearly visible to the individual States.



JURISDICTION OF THE COMMITTEE ON INTERSTATE AND FOREIGN  
COMMERCE OVER THIS SUBJECT AND THE RELATION OF INSURANCE  
TO INTERSTATE COMMERCE.

As has been previously stated, it is conceded that insurance is not interstate commerce, but, as said by the honorable Secretary of Commerce and Labor, to quote again from his letter:

It does not follow that Congress has no authority to order an inquiry into the condition of fire-insurance business. It may become important even for the regulation of, strictly speaking, interstate-commerce organizations to know under what conditions such organizations are compelled to operate.

The discussion of this question before the committee has suggested to the mind of at least one member of the committee the proposition that Congress has not exhausted its power over insurance, and that, in line with recent decisions of the Supreme Court, the Congress may have power to extend its authority over certain insurance contracts as incidents of interstate commerce. On this suggestion I beg to submit the following brief:

It no longer admits of doubt that the power of Congress extends to all the incidents of interstate commerce and to the control of all conditions which make interstate commerce possible and of advantage to the people of the country.

It is probable that had statutes existed taking into control of Congress certain classes of insurance contracts connected with subjects of interstate commerce that the cases of *Paul v. Virginia*, or *Hooper v. California*, would not have been so decided.

Prof. Goodnow, of Columbia University, in his recent work on Constitutional Law (1911), page 64, says:

As yet, however, we have not ascertained whether the power of regulation possessed by Congress may be extended so as to embrace purely intrastate commerce by land where the regulation of that commerce is necessary in order that the regulation of interstate commerce may be effective.

Proceeding to a discussion of insurance and its relation to this doctrine, the same author says, pages 65-66:

It has also been expressly held that neither life insurance nor insurance against fire nor insurance against the perils of the sea is included within the constitutional conception of commerce." (*New York Life Insurance Co. v. Cravens*, 178 U. S., 389; *Insurance Co. v. Dunham*, 11 Wallace, 1; *Hooper v. California*, 155 U. S., 648.) It is remembered, however, that these cases were decided with regard to the power, not of Congress, but of the States. They might, therefore, be considered as recognizing a power in the States to issue in the absence of action by Congress local regulations on a subject not at the time requiring uniform treatment. The recent decision in *International Textbook Co. v. Pigg* (217 U. S., 91), in which education by correspondence between two States was held to be interstate commerce, goes far in abandoning the theory upon which interstate insurance was held not to be interstate commerce.

Since this was written two cases have been considered by the court which establish absolutely the right of Congress to control local relations and contracts when they are concerned directly with interstate commerce. These cases are in the order of importance, first, the second safety appliance act case (decided Oct. 30, 1911, 220 U. S.), and second, the Carmack amendment case, relating to the liability of the initial carrier in accepting goods for interstate shipment, decided January 3, 1911 (219 U. S., 186). In the first of these cases it was held that a car used wholly in domestic commerce on a railroad



on which interstate commerce was transacted was subject to the Federal statute providing for safe, coupling appliances.

The court, considering the question under discussion, in its opinion said:

We come, then, to the question whether these acts are within the power of Congress under the commerce clause of the Constitution, considering that they are not confined to vehicles used in moving interstate traffic, but embrace vehicles used in moving intrastate traffic. \* \* \* Or, stating it another way, is there such a close or direct relation or connection between the two classes of traffic, when moving over the same railroad, as to make it certain that the safety of the interstate traffic and of those who are employed in its movement will be promoted in a real or substantial sense by applying the requirements of these acts to vehicles used in moving the traffic which is intrastate as well as to those used in moving that which is interstate? If the answer to this question, as doubly stated, be in the affirmative, then the principal question must be answered in the same way. And this is so, not because Congress possesses any power to regulate intrastate commerce as such, but because its power to regulate interstate commerce is plenary, and competently may be exerted to secure the safety of the persons and property transported therein and of those who are employed in such transportation, no matter what may be the sources of the dangers which threaten it. That is to say, it is no objection to such an exertion of this power that the dangers intended to be avoided arise, in whole or in part, out of matters connected with intrastate commerce.

It may be said in this case that the equipment of cars is a matter of actual physical relation to interstate commerce, and therefore the relation to interstate commerce necessary to Federal control is quite easily established. The statement of the rule, however, goes very much further than is necessary to account for the decision on this theory, and further than was necessary to decide, as the court did in the first safety-appliance case, that a car ordinarily used in interstate commerce was an instrument of that commerce, although standing still and not having commenced its journey.

A case much nearer our present question, however, and one in which consideration is given to contracts purely intrastate in character, except for their effect upon commerce between the States, is the Carmack amendment case. This case surely goes the entire length of justifying the action of Congress in assuming control of such contracts when necessary to promote and safeguard interstate commerce.

This amendment to the Hepburn Act took away the right of the carrier to make contracts under the local laws, for the transportation of freight beyond the boundaries of the State, unless such contracts complied with Federal regulations and imposed upon common carriers liabilities for loss incurred by the negligence of connecting carriers over which the freight would pass under the shipment. The court held there is no absolute freedom of contract and that the Government may forbid every contract calculated injuriously to effect public interests.

On the power of Congress to include within its regulations such a provision, and reviewing former cases, the court said (pp. 201-203):

This power to regulate is the right to prescribe the rules under which such commerce may be conducted. "It is," said Chief Justice Marshall, in *Gibbons v. Ogden* (9 Wheat., 1, 197), "a power vested in Congress as absolutely as it would be in a single government having in its constitution the same restrictions on the exercise of the power as are found in the Constitution of the United States." It is a power which extends to the regulation of the appliances and machinery and agencies by which such commerce is conducted. Thus, in *Johnson v. Southern Pacific Railway* (196 U. S., 1), an act prescribing safety appliances was upheld. And in *Interstate Com-*



merce Commission *v.* Illinois Central R. R. Co. (215 U. S., 452), it was held that the equipment of an interstate railway, including cars used for the transportation of its own fuel, was subject to the regulation of Congress. In *Interstate Commerce Commission v. C. & A. Ry. Co.* (215 U. S., 479), it was held to extend to the distribution of coal cars to the shipper, so as to prevent discrimination. In the *Employers' Liability* cases (207 U. S., 463, 495), power to pass an act which regulated the relation of master and servant, so as to impose on the carrier, while engaged in interstate commerce, liability for the negligence of a fellow servant, for which at common law there was no liability, and depriving such carrier of the common-law defense of contributory negligence save by way of reduction of damages, was upheld. \* \* \*

Having the express power to make rules for the conduct of commerce among the States, the range of congressional discretion as to the regulation best adapted to remedy a practice found inefficient or hurtful is a wide one. If the regulating act be one directly applicable to such commerce, not obnoxious to any other provision of the Constitution, and reasonably adapted to the purpose by reason of legitimate relation between such commerce and the rule provided, the question of power is foreclosed. "The test of power," said Mr. Justice White, speaking for this court in the *Employers' Liability* cases, cited above, "is not merely the matter regulated, but whether the regulation is directly one of interstate commerce or is embraced within the grant conferred on Congress to use all lawful means necessary and appropriate to the execution of the power to regulate commerce." \* \* \*

Reduced to the final results the Congress has said that a receiving carrier, in spite of any stipulation to the contrary, shall be deemed, when it receives property in one State to be transported to a point in another involving the use of a connecting carrier for some part of the way, to have adopted such other carrier as its agent, and to incur carrier liability throughout the entire route, with the right to reimbursement for a loss not due to his own negligence. The conditions which justified this extension of carrier liability we have already adverted to. The rule of the common law which treated a common carrier as an insurer grew out of a situation which required that kind of security for the protection of the public. To quote the quaint but expressive words of Lord Holt, in *Coggs v. Bernard* (2 Ld. Raymond, 909), when defending and applying the doctrine of absolute liability against loss not due to the act of God or the public enemy, "this rule," he said, "is a politick establishment contrived by the policy of the law for the safety of all persons, the necessity of whose affairs oblige then to trust these sort of persons that they may be safe in their ways of dealing."

If it is to be assumed that the ultimate power exerted by Congress is that of compelling cooperation by connecting lines of independent carriers for purposes of interstate transportation, the power is still not beyond the regulating power of Congress, since without merging identity of separate lines or operation it stops with the requirement of oneness of charge, continuity of transportation, and primary liability of the receiving carrier to the shipper, with the right of reimbursement from the guilty agency in the route. That there is some chance that this right of recoupment may not be always effective may be conceded without invalidating the regulation. If the power existed and the regulation is adapted to the purpose in view, the public advantage justifies the discretion exercised and upholds the legislation as within the limit of the grant conferred upon Congress.

Does it require a very extended power of vision to see the time when Congress may find the conditions such that commerce will need protection as to insurance contracts upon subjects of interstate commerce? And when Congress does speak, will it be any more difficult to show the relation of these contracts to interstate commerce and its dependency upon them than it was to show this relation of the laws of master and servant and of the receiving carrier in the cases above? At any rate, we will find plenty of authority to sustain such action of Congress in the broad statement of the rule in the *Safety Appliance* case, viz:

And this is so, not because Congress possesses any power to regulate intrastate commerce as such, but because its power to regulate interstate commerce is plenary, and competently may be exerted to secure the safety of persons and property transported therein and of those who are employed in such transportation, no matter what may be the source of the dangers which threaten it. That is to say, it is no objection to such an exertion of power that the dangers intended to be avoided arise, in whole or in part, out of matters connected with intrastate commerce.



In the case of *Budd v. New York* (143 U. S., 517) it was held that the power to regulate elevator charges carried with it the right to regulate the compensation of labor for transporting grain from the boats or cars used to carry grain to the carrier—this labor being one of the indispensable things of the elevator service.

Attention is called to the interesting words of the quotation from Lord Holt, and the lines leading to it, because a suggestion is contained therein of the element of insurance contracts present in the transportation bailment. At common law the transportation contract insured against all casualties except the act of God and the public enemy. The fire-insurance contract includes the accident of fire and, usually, lightning. We have in these modern times fidelity, casualty, and credit (bankruptcy) insurance. All of these, with the above exception, were contained in the contract for transportation affecting the charge of the carrier and the convenience or inconvenience of the shipper and the service received by him. These different liabilities and duties of the carrier are now under modern commerce being shifted from the carrier or divided with other persons, and hence will soon be, if not now, of as much importance to interstate commerce as the obligation of the carrier.

This has been forcibly brought to our attention recently by the consideration by this committee and by Congress of the parcel post and parcel express questions. It has been developed that the principal charge in express rates for the delivery of small packages is for insurance or safety of the packages transported. In Germany, where the most ideal parcel-express system exists, the Government transports under three different rates—one at the risk of the owner, one at the partial risk of the Government, and the other at a rate which secures total indemnity for the loss of the article transported.

It appears very clearly that if our Government undertakes to solve the problem of cheaper rates than those now enjoyed by the public for this class of transportation, either by regulation of the express companies or by the institution of a Government-owned express service, the question of rates and contracts relating to the loss of packages by fire or other casualties must be considered.

The importance of these matters in the transportation of small packages is an illustration of what is going on in matters of large shipments. Whether known to the shipper or not, the practice of insurance companies, their contracts and the amount of the risk carried by the transportation company itself, the amount reinsured, and the means taken to prevent loss by fire or from other casualties all enter into the making of the rate and the facilities offered the shipper for the movement of his goods and affects their safety in commerce.

It is settled law that marine and life insurance is not a part of foreign commerce, but this does not stop Congress in its effort to gain facts concerning the cause of a *Titanic* disaster.

It is a short step from this to such disasters as the Chicago stock yards fire, where a large part of the stock in the yards was in course of transit as interstate commerce and the loss resulted in great inconvenience to the shippers, litigation, and in some cases absolute loss.

It is therefore certain that Congress has the power to declare all such contracts and practices, which so closely relate to interstate



commerce, incidents of that commerce and subject to regulation by Congress.

[Proof of profit.]

GAIN AND LOSS EXHIBIT.

BANKING DEPARTMENT.

The companies claim that they make no money out of underwriting, but make their large earnings out of the "Banking department."

Compare the combined earnings as below:

	Con- necticut.	New York.	Massa- chusetts.
Underwriting.....millions..	34	31	72
Investment income earned.....do....	53	61	62

That shows a large gain from underwriting, but still larger gain from investments. Compare, however, the amounts shown in surplus:

	Con- necticut.	New York.	Massa- chusetts.
Underwriting gain in surplus.....	34	31	72
Invested gain in surplus.....	35	42	40

From underwriting (Connecticut).. \$34, 000, 000

From investments (Connecticut)... 35, 000, 000

Combined gain in surplus, three States:

From underwriting.. \$46, 000, 000

From investments... 39, 000, 000

Note the losses in investments which have come out of investment earnings:

	Con- necticut.	New York.	Massa- chusetts.
Investment income earned.....	53	61	62
Investment gain in surplus.....	35	42	40
Loss in investments.....	18	19	22

Earned (Conn.), \$53,000,000.

Carried to surplus, \$35,000,000.

Shrinkage, \$18,000,000.

In other words, the loss on sales, or upon shrinkage of value, in investments approximates \$20,000,000, which is now shown as taken out of investment earnings. This is for two years' experience.

What item was it taken out of during all the years in which the companies were not required to report the investment department gains and losses?

Where did the investment department expenses appear in those older reports which are now utilized to show that in a long term of years there has been no profit in underwriting?



30 FIRE INSURANCE AND FIRE LOSSES IN THE UNITED STATES.

ALL UNITED STATES STOCK FIRE INSURANCE COMPANIES REPORTING TO CONNECTICUT,  
1911, EXCEPT SPRING GARDEN.

Premiums received since organization.....	\$3, 400, 000, 000
Losses paid since organization.....	1, 900, 000, 000
Balance unaccounted for. What became of it?.....	1, 500, 000, 000
Capital of these same companies.....	68, 200, 000

This chart shows all fire losses—conflagration and ordinary—and a balance of pre-  
miums received of *fifteen hundred million dollars*, on a capital of \$68,200,000. No  
account is taken here of any income from investments or banking. That would be  
additional.

LATEST FINANCIAL SHOWING.

ALL UNITED STATES STOCK FIRE INSURANCE COMPANIES REPORTING TO CONNECTICUT,  
1911.

[Graphic Chart No. 1.]

Capital (including stock dividends).....	\$68, 200, 000
Book value.....	191, 600, 000
Market value.....	214, 400, 000
Profit.....	144, 200, 000

Compiled from the Spectator tables and current market reports.  
All losses of every kind are taken into the account in these figures.

RECORD SINCE ORGANIZATION.

ALL UNITED STATES STOCK FIRE INSURANCE COMPANIES REPORTING TO CONNECTICUT,  
1911.

[Graphic Chart No. 2.]

Contributed capital.....	\$56, 000, 000
Stock dividends.....	12, 200, 000
Accumulated surplus.....	127, 500, 000
Cash dividends paid.....	269, 600, 000
Stockholders' showing since organization.....	465, 300, 000

All losses and expenses of every kind accounted for.

[See Graphic Chart No. 1.]

Capital (as above).....	\$68, 200, 000
Market value.....	214, 400, 000
Profit on stock alone.....	144, 200, 000

SPECTATOR TABLES, 1901-10.

[Graphic Chart No. 3.]

[Includes all conflagrations and all companies.]

This is the amount that the stockholders put up in cash and stock  
dividends..... \$80, 000, 000

This is the amount that the policy holders got for losses in 10 years.... 1, 523, 000, 000

This is the amount that the policy holders did not get..... 1, 485, 000, 000

Expenses other than dividends.	Cash dividends.	Surplus.
Capital and surplus now on hand.....	\$277, 000, 000	
Capital.....	80, 000, 000	
Gain in surplus.....	197, 000, 000	



ALL FOREIGN COMPANIES (28) LICENSED IN CONNECTICUT PRIOR TO 1910.

Sent to United States from home offices, 1909-10.....	\$4, 176, 447
Remitted to home offices from United States, 1909-10.....	15, 332, 232
Net amount sent abroad, 28 companies, 1909-10.....	11, 155. 785

Note the net gain for two years only.

# LOUISVILLE.

PER CENT OF LOSSES TO PREMIUMS COMPILED FROM LITTLEJOHN'S TABLE OF EXCEPTED CITIES—10 YEARS' EXPERIENCE, 1892-1902.

	Per cent.
Cleveland.....	79
St. Louis.....	69
Chicago.....	64
Louisville.....	49

In spite of this low loss record, the Louisville Board of Underwriters added to Louisville rates an arbitrary charge of 25 per cent after the Baltimore fire, which was not imposed by the boards upon the other cities.

This chart shows that Louisville deserved a reduction of rates instead of an advance at the time of the Baltimore fire.

PREMIUMS AND LOSSES, SPECIAL FIRE-INSURANCE COMMITTEE TABULATION, 12 YEARS, 1899-1910.

Premiums paid.....	\$13, 403, 116
Losses paid.....	5, 978, 253
	44.6 per cent.
Normal premium.....	9, 963, 000
Overcharge.....	3, 440, 000

Louisville overcharge, 34.6 per cent of normal premium.

CONTINENTAL EXPERIENCE—26 YEARS.

[Spectator tables. United States and Canada.]

Premiums.....	\$281, 440, 712
Losses.....	167, 440, 712—59. 6 per cent.
Rate of premium 1910:	
Kentucky.....	1. 36 per \$100 at risk.
United States and Canada.....	1. 11 per 100 at risk.

[Proof of overcharge.]

BRICK DWELLINGS, SHINGLE ROOF.

St. Louis.....	\$0. 15
Louisville.....	. 50
Overcharge.....	. 35

Overcharge, Louisville over St. Louis, 233 per cent.

Missouri maximum rate.....	. 25
Kentucky maximum rate.....	per cent. . 65

Overcharge Kentucky over Missouri, 260 per cent.

COST AND RETURN TO POLICY HOLDER.

Every \$1 received for losses.

Cost policy holder in premium paid.

United States, continental.....	\$1. 66
Louisville.....	2. 20
Overcharge.....	. 54

Louisville overcharge compared with all United States, 33 per cent.



Mr. JACKSON. Now, if you will let Mr. Holt take four or five minutes, I shall be glad to have him take that much of my time.

**STATEMENT OF MR. GEORGE H. HOLT, OF CHICAGO, ILL.**

The CHAIRMAN. If the committee wish to give Mr. Holt a few minutes——

Mr. DRISCOLL. I move he be given 10 minutes.

The CHAIRMAN. If there is no objection, Mr. Holt will please proceed on 10 minutes of Mr. Jackson's time.

Mr. HOLT. I want to read from the stenographic report from hearing by Commissioner Blake, superintendent of insurance of the State of Missouri, when he was attempting to ascertain the statistics which are proposed to be ascertained by the United States Government, and he absolutely failed to get them. The companies claim that they do not have such statistics; that they are not able to get them.

Mr. HAMLIN. Then, where could you get them?

Mr. HOLT. Proceed to try to get them through the various sources from which they can be had; they have some; there are others in other jurisdictions, and there are some they have as individual companies.

Mr. HAMLIN. Could you briefly outline to us the sources from which this information could be gathered, this data?

Mr. HOLT. Yes, sir.

Mr. HAMLIN. Just briefly, you said the insurance companies could furnish some, but not all.

Mr. HOLT. The companies, for example. The States ask to-day for the companies within their borders that they turn in not only their financial condition, but the charges which they make, the insurance they have, the risks, losses suffered, and expenses—you understand those items—then, in order to know whether those are just or not without relation to the mere accumulation of premiums, you want to know the rules and penalties and requirements which have been imposed on people of your State, distinguished from some other State or some other community. Those can be obtained. The companies do not have them as companies; they come into their groups of organization, the eastern and western union, southeastern and southwestern tariff association, and so on through. They have them. Then they sacrifice certain of these, so they can answer in court, "We do not know this; we are not cooperating together." Now, where are all those statistics? They are in the hands and on the tables of the independent raters. Very well; let us ask the independent raters, here are four of them, and they say, "Yes; we have certain statistics; we do certain things." "Do you conduct your rating system based upon the loss experience of the companies?" "No; we do not know anything about that." "Do you collect them from time to time when you make the changes based upon the loss experience?" "No, sir; we have no statistics, and if we had any they would not do you any good." "Then it is empirical?" "Yes; empirical, except we have the experience within the last years, and we try to get about the same result. We consider the last previous experience was satisfactory, and if we can get about the same experience from now on we will be satisfied." As an example of how recklessly they do this thing I might read you from this testimony before Supt. Blake, of



Missouri, how Mr. H. M. Hess, an important man there, was sent down by the association.

I want to cut it short. They asked him how he arrived at his method of making rates. He said, "Why, we consult with them the same as we do with any other underwriter regarding the relation between the charges. For instance, we go to him and say, 'If 150 per cent is a proper charge for the combustibility of a moving-picture exchange, then do you think 80 per cent would be about proper for a carpenter shop?'" That is the kind of information; instead of taking the actual fire loss of carpenter shops and moving-picture associations, and all that sort of thing, which really is what they are trying to insure against, they simply ask each other these various questions, and the answer always is just "what the traffic will stand." This statement is the shortest way to get at what Mr. Jackson would like to have me say to you and will give you an idea, to place before you the best way I can the enormous volume of this business and the enormous importance of it and the terrific chaos in it to-day and the hopelessness of arriving at anything through these haphazard means. I have been in it 10 years, and we have tried it up and down through all the States. I have clients in all the States.

Take the insurance carried in the United States; it is probably \$50,000,000,000 (probably more than Germany). Premiums collected annually are probably \$500,000,000. Fire waste annually, \$450,000,000 (the waste now, not simply the amount of insurance), and the fire cost, which is another way of arriving at it, is \$450,000,000; that is the losses and expenses of the companies; that is what it costs in premiums paid in. There are no standards of any sort and no statistics upon which the companies or the public can determine the accuracy of the figures given, or the real relation of cost to loss, or the relation of value to loss, or a just and equitable charge, or how it should be apportioned and applied, or who is to blame, or who can correct and abate fire loss and fire cost. No other nation is in such a condition of chaos. The State reports contain two sets of tabulations, which are conflicting. No adequate record exists anywhere, because no individual company, organization or State, has had sufficient incentive to attempt the work and assume the cost. No scientific or defensible system of rates and rules can ever be devised or applied until the facts are gathered and tabulated. It is all simple enough in its larger aspect. The question of property value, insurance at risk, rate and amount of premiums, rate and amount of losses; but the details of standardizing, collecting, and tabulating this information is a large matter. Many States are attempting to regulate insurance within their borders and more will follow, but they cannot act with wisdom, because they have no adequate basis of fact; they can not act in concert, because there are no standards of measurement upon which they can rely or agree. It will cost each State from \$10,000 to \$50,000 a year to carry on its incomplete work; I estimate \$20,000 as the average, or \$880,000 per annum. As no two States have authority over the same list of companies, and as averages ought to cover Nation-wide experience at least and world-wide experience preferably and ultimately, and as the Federal Government has the authority and no other authority exists, and as this appalling expense and loss of life are increasing instead of diminishing in this country,



and as the competing nations are profiting by this condition, not only through a better system which reduces the wastes, but by reason of the millions of dollars annually paid to foreign insurance companies as premiums, thus doubly handicapping commerce and industry in this country, every association or group of property owners who have heard of H. R. 357 have instantly and most emphatically given it their approval and support. If the United States were put upon a European basis of fire loss and cost, from five hundred to a thousand million dollars annually would be saved to the Nation, and more than 5,000 lives. The money and the lives ought to be worth as much to the United States as they are to the foreign governments. Foreign nations spend from \$150,000 to \$200,000 a year each to save this unthinkable waste.

Those who know and those who bear the burden of this cost and loss urge Congress to grant them this assistance and relief.

I will answer one thing which I think may be in your minds concerning the District of Columbia. The Government of the United States can not pass a law, can not judge whether a rate is proper or improper, whether just or unjust, without this information. Who is going to get it? The companies have not got it. Are you going to wait until 48 different States get it and tabulate it and put it in force? Why is it not proper for the United States Government, being certainly an equal party in interest in this whole thing, wanting the use of this information for its own benefit; why should it not be a party to this; why not chip in and get this thing? It would be far cheaper for the States to chip in than for each to bear the individual expense, but it is a very trifle as compared with the hundreds of millions of dollars annual loss and the possibility of saving of thousands of lives.

Mr. HAMLIN. Before you sit down—I am afraid you have got the idea I am opposed to this resolution. I do not want to convey that idea. The only point in my mind is whether we would have any authority to use the money of the United States Government for this purpose; and then your first question; when you got up you made the statement that the insurance companies had this information.

Mr. HOLT. Yes.

Mr. HAMLIN. I had the curiosity to know, if we passed this resolution, if we could not get it from the insurance companies, where could we get it?

Mr. HOLT. We get it partially from the insurance companies.

Mr. HAMLIN. Could we get it?

Mr. HOLT. Yes; it could be gotten. We have other sources which go along confirmatory of it; I could give them to you, but the detail is so large——

The CHAIRMAN. The time has expired. You can enlarge your answers, if you wish, in revising your testimony.

SUPPLEMENT TO TESTIMONY OF GEORGE H. HOLT BEFORE THE COMMERCE COMMITTEE, MARCH 25, IN REPLY TO INQUIRY MADE BY MR. HAMLIN REGARDING SOURCES OF INFORMATION.

Records of insurance companies.

Records of insurance companies not reporting to States, such as mutuals, Lloyds, inter, reciprocal, and class underwriters, cooperative, etc.

Records of fire departments, fire marshals, fire patrols, salvage corps, salvage companies, loss-adjustment bureaus, testing laboratories, underwriters' laboratories, etc.

Reports of organizations of industry and commerce which have made special investigation.



Reports of State and special commissions (a very voluminous mass of information).

Transactions of technical and professional societies, architectural and waterworks associations, and reports upon structural materials and their relation to fire hazard and waste.

Reports upon hazards inherent in processes, machinery, and manufactured materials, etc.

Reports of the National Board of Fire Underwriters.

Information concerning fire-prevention devices—automatic, manual, and power—of every sort.

Reports of foreign governments and commissions, existing in many volumes and many languages and containing very valuable and thorough results of research and expert opinion.

A great mass of periodical and special contributions by experts and professional men upon separate phases and details which enter into the problem and modify it in important respects.

The Library of Congress contains over 250 titles of books and pamphlets on this subject exclusive of the great mass of periodicals, current articles, and addresses, each of which is or may be an important contribution to knowledge of this subject.

Testimony of experts before many courts, State commissions, and legislative committees.

Report of New York factories-investigation committee.

Minutes of a great number of meetings of insurance organizations and related activities, embodying a large volume of statistics and experience.

The problem is to accumulate, analyze, and classify all of this information and coordinate it for effective use by competent men who are trained in the consideration of the complicated problems which are involved in the investigation.

There are important libraries at Boston, New York, and Chicago devoted exclusively to this subject. There are many standard books and textbooks which are of great value and assistance. Much more might be added in the way of detail; but the foregoing will indicate the great extent of the field and the relative independence of the Government investigators in the absence of cooperation by the insurance companies or the States.

Individuals having knowledge and training in the different departments of the fire insurance problem.

Expert underwriters, such as Henry Evans, president of the Continental Insurance Co.; Mr. Freeman, of the so-called New England Mutuals; Mr. Evans, the successor of John R. Waters, of the Interinsurers and Reciprocal Underwriters of New York; Johnson & Higgins, Moses Tannenbaum, Weed & Kennedy, and Stoddard, of New York; Marsh & McLennan, of Chicago; and many other trained and responsible underwriters.

Fire-protection engineers and experts, such as those employed by the National Board of Fire Underwriters, the State and city boards of underwriters, the Mutual, Lloyds, interinsurance and special insurance companies, who make a feature of engineering and inspection.

Fire chiefs and commissions, such as Croker, Waldo, and many others of national reputation and great experience.

Technical experts, trained and experienced in the appraisement of hazard and application of schedules, formulation of rules and penalties, adjustment of losses, classification of risks, tabulations of loss experience, etc., which is a large and widely trained class of men.

Officials of the State insurance departments and of the numerous boards, associations, unions, bureaus, clubs, etc., of underwriters and agents having jurisdiction over certain zones of activity.

Official raters or rating organizations, independent raters (so called), designers of schedules and schemes of rating (such as Simonson, Dean, Parker, Whitney, Seely, and many others, United States and foreign).

Students and thinkers and authors, and teachers in special courses in universities, such as Prof. Huebner, of the Wharton School of Finance, and many others who have made valuable contributions of thought and study and experience and philosophy to this subject.

In brief, if the companies or organizations should decline to furnish the Bureau of Corporations with information requested, the living men who have the knowledge and experience and have actually done the business and the thinking would unquestionably and gladly respond to a request of the bureau, because most if not all of them are agreed that the National Government alone has the power and the incentive to deal with the subject adequately and permanently.



[Quotations from Insurance Field, Mar. 21, 1912.]

## INSURANCE NO LONGER LOCAL.

"One State can at best procure and make rates only for itself. It has no power elsewhere and no materially definite interests elsewhere that would enable it to perceive and respond to the necessity of other correlatives. If all the States united to make rates through a system corresponding exactly to that in use by the companies it would have done by an interstate confederation of purpose what the Federal Government was expressly created to supply. \* \* \*

"It is impossible for any State to make for itself proper and safe rates upon the temporary or even the long-continued basis of its own experience. It must take into consideration the experience of other States, of the whole country, of other countries, and the whole world, or the very cornerstone of insurance is lost. \* \* \*

"The very essence of insurance is the wide scattering or separation of the risks taken by any one company, so that no fire can bring more than a clearly foreseen and deliberately limited loss to it. \* \* \*

"At the same moment that the case of *Paul v. Virginia* was argued the Supreme Court would have been justified in holding that neither a telephone message nor a telegraph message was commerce, but the development of these inventions revealed them as instruments of commerce. \* \* \*

"This aspect is one that, under the very important circumstances of the questions that press for solution, calls for profound consideration by the Supreme Court to determine in the light of the national welfare. \* \* \*

"The public interest with which it is impressed far exceeds and transcends that of any one State or group of States and is that of the whole Government."

The Journal of Commerce of April 26 reports William B. Ellison, of the National Board of Fire Underwriters, an organization of fire insurance companies for the prevention of fire losses, as saying:

"Such a bureau (governmental) could be of infinite value in securing harmonious action on the part of the insurance commissioners \* \* \* could be made an equally strong factor in the harmonizing of legislation throughout the various States \* \* \* to secure a vastly greater uniformity of laws affecting the question of fire insurance \* \* \* do much to eradicate the present prejudices which are so baneful to the successful operation of the business of insurance \* \* \* correct arbitrary rulings rendered by superintendents of insurance \* \* \* secure legislation that will harmonize the conflicting decisions of the courts in various jurisdictions \* \* \* could make "strike" legislation unpopular and dangerous \* \* \* recognized as an impassable barrier to vicious or useless legislation."

Additional statement showing the authority of the Federal Government to gather information for the sole use of the State governments, subdivisions thereof, or even individuals, if the effect thereof is to save human life, preserve valuable property, or to otherwise contribute materially to the welfare of the people of the United States.

As was said by the honorable Secretary of the Interior in his letter to the committee: "Broadly speaking, I am inclined to believe that the Government has the general power to inquire into conditions for the purpose of giving general information, even though it be admitted that the conditions disclosed by such an investigation are beyond the authority of Congress to regulate or control. In other words, Congress may provide the information, leaving it to State authority to supply the correction. If this is not true, then it appears to me that the activities of our Commissioner of Education in the Department of the Interior and many of the inquiries made by the Bureau of Labor could not be sustained."

Attention is respectfully called to the following instances of the exercise of this power as precedents:

The Geological Survey report, undertaken some years ago on this very subject, but not carried to completion, was "to meet the Government's own needs as the greatest consumer of structural materials and to obtain results likely to be useful to States, municipalities, and the people of the whole country."

February 13, 1912, the Committee on Interstate and Foreign Commerce reported favorably H. R. 9056 "to continue the investigation of water resources." (Report No. 319.)

The committee very aptly say (rept., p. 2):

"The importance of the work, its Federal and general purpose, and its wide application, all make it advisable to relieve the contingency under which it has suffered," etc. (the legal authority for the appropriation).

The headings under which these purposes are discussed are, "Inland navigation," "Irrigation," and "Water power." The latter two are almost wholly subjects of



State and private regulation. Is information concerning the watering of a farmer's crops of more importance than information concerning the protection of his life and property from fire? Indeed, is not the Government warranted in its investigation of the water supply for this very reason, as well as for these given; that is, of ascertaining the amount of fire protection in town and cities afforded by the water supply? Of course, the relation to interstate commerce of both of these subjects is wholly incidental.

(2) Page 48 of sundry civil appropriation bill, approved March 4, 1911:

"Commission of Fine Arts: To meet the expenses made necessary by the act approved May seventeenth, nineteen hundred and ten, entitled, 'An act establishing a Commission of Fine Arts,' the purchase of periodicals, maps, and books of reference, and necessary office furniture and fixtures, to be disbursed on vouchers approved by the commission, by the officer in charge of public buildings and grounds, who shall be the secretary and shall act as the executive officer of said commission, eight thousand eight hundred dollars."

(3) Pages 52-63 of the same law:

"For topographic surveys in various portions of the United States, three hundred and fifty thousand dollars, to be immediately available; for geologic surveys in the various portions of the United States, three hundred thousand dollars, to be immediately available; for chemical and physical researches relating to the geology of the United States, including researches with a view of determining geological conditions favorable to the presence of deposits of potash salts, forty thousand dollars; for the preparation of the illustrations of the geological survey, eighteen thousand two hundred and eighty dollars; for the preparation of the report of the mineral resources of the United States, seventy-five thousand dollars; for gauging the streams and determining the water supply of the United States, and for the investigation of underground currents and artesian wells, and for the preparation of reports upon the best methods of utilizing the water resources, one hundred and fifty thousand dollars."

(4) Page 63:

"Bureau of Mines: For the investigation as to the causes of mine explosions, methods of mining, especially in relation to the safety of miners, the appliances best adapted to prevent accidents, the possible improvement of conditions under which mining operations are carried on, the use of explosives and electricity, the prevention of accidents and other inquiries and technologic investigations pertinent to the mining industry, three hundred and ten thousand dollars."

(5) Page 65:

"So much of the appropriation of twelve thousand dollars, made in the sundry civil act approved June twenty-fifth, nineteen hundred and ten, to enable the Secretary of the Interior to examine into the data required to be submitted by the city of San Francisco with reference to a water supply for that city from Lake Eleanor and adjacent watersheds partially within the Yosemite Park or from any other available sources of water supply, and to collect such independent data and information as may be necessary in the premises, including all incidental expenses of the officers of the Engineer Corps of the United States Army, detailed by the Secretary of War as an advisory board to the Secretary of the Interior in connection therewith, as remains unexpended on the thirtieth day of June, nineteen hundred and eleven, is hereby reappropriated and made available during the fiscal year nineteen hundred and twelve, to enable the Secretary of the Interior to continue such work during that period."

(6) Page 87:

"Inquiry respecting food fishes: For expenses of the inquiry into the causes of the decrease of food fishes in the waters of the United States, and for investigations and experiments in respect to the aquatic animals, plants, and waters, in the interest of fish culture and the fishery industries, including expenses of travel and preparation of reports, and for all other necessary expenses in connection therewith, thirty-five thousand dollars."

"Statistical inquiry: For expenses in the collection and compilation of the statistics of the fisheries and the study of their methods and relations, including travel and preparation of reports and all other necessary expense in connection therewith, seven thousand five hundred dollars."

Instances can be multiplied indefinitely. It is probable that all appropriations for the support and maintenance of the Smithsonian Institution came under this authority of the Government to collect useful information.













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